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SUBJECT: SAO PAULO KEY ECONOMIC DEVELOPMENTS, JANUARY 16-30, 2010

REF: SAO PAULO 42; SAO PAULO 652; SAO PAULO 728

¶1. (SBU) SUMMARY: This cable highlights economic, energy and science and technology developments in the Sao Paulo Consular District for the period January 16-30, 2010, not covered by broader reporting. Significant developments during the period include: Embraer adjusting to slower global demand, Brazil's auto sector expecting strong domestic growth through 2014, and public forums begin for bullet train project. END SUMMARY.

Embraer Charts Course for Slower 2010

¶2. (SBU) Coming off a record number of aircraft deliveries in 2009 (ref A), Embraer faces a significantly slower 2010 as the global demand for regional commercial aircraft, executive jets, and military trainers remains soft. Embraer dismissed 4,000 workers in 2009 as it noticed a slowdown in new export orders, 90 percent of its business, and is now looking at additional measures to solidify its business as previous growth areas such as executive jets have dwindled. Embraer has been particularly affected by the economic slowdown in the United States which represents 43 percent of its market. Weaker U.S demand and thinner global profit margins led the company to slip from Brazil's second largest exporter in terms of revenue to third place in 2009.

¶3. (SBU) During a January 27 visit to the company's San Jose dos Campos manufacturing facility, Embraer Director for External Relations Jose Serrador Neto told Econ/Pol Chief and Econoff that the company aimed to weather 2010 without further major cuts in the hope of aircraft demand returning in 2011. In the meantime the company is looking for new efficiencies such as implementing just-in-time inventory practices and aggressively seeking out new productivity gains. For example, after hiring a Japanese consulting firm to evaluate the company's organizational practices, Embraer recently made adjustments to its final assembly hanger operation that cut work time in the last step of manufacturing from 22 days to 11 days. The company is also planning to develop new aircraft models to expand its product line. On January 30 Embraer

announced plans to develop a 122-seat version of its current top regional jet the E-195 by 2016. The new aircraft would be the largest ever build by the company. According to the Executive Vice-President, Muro Kern, the main purpose is to boost Embraer's manufacturing expertise, rather than to directly compete with Boeing or Airbus, which lead the market segment for aircraft with 150 or more seats.

Auto Sector Likely to Continue Growing

14. (U) According to a recent study by PriceWaterhouseCoopers, if domestic auto sales continue to grow at rates similar to those registered over the past six years Brazil will have one car for every 5 people by 2014, the highest rate ever, and a 31 percent increase from the current rate (Ref B). In 2010, domestic auto sales are expected to reach 3.4 million units, or 9.3 percent greater than 2009. According to Jackson Schneider, President of the National Association of Vehicle Manufacturers, the study underscores the fact that Brazil will continue to be an attractive market for international vehicle companies, as Brazil's middle class continues to expand and demand new vehicles.

Public Forums Begin for Bullet Train Project

15. (SBU) On January 27, the first of three programmed public audiences to discuss planning for the high-velocity train (ref C) to connect Sao Paulo and Rio de Janeiro took place in Sao Jose dos Campos, an important high technology, aerospace and engineering center located along the anticipated rail corridor. Two more meetings will be held in Aparecida (SP) and in Barra Mansa (RJ) in the next few weeks. The three cities are competing to have stations in the USD \$20 billion project as well as one planned maintenance hub for the entire system. While the high-velocity train program has been subject to several delays and more than 50 different potential routings have already been proposed, Sao Jose Mayor Eduardo Cury told Econ/Pol Chief and Econoff his city was competing hard for a station and the maintenance hub. Cury said that S????o Jos???? dos Campos could provide the third highest number of passengers in Sao Paulo for the system after S????o Paulo city and Campinas. The Mayor also expects that a station and a maintenance hub would further reinforce Sao Jose's existing industrial network and growing technology park.

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